# GUIDELINES TO THE ANNUAL DEVELOPMENT PLAN 1971-1972

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# FOREWORD

In the Second Five-Year Plan it was made clear that an Annual Economic Plan would be prepared so as to adapt and apply the Five-Year Plan to changing circumstances throughout the period, and so as to adjust imbalances as they occurred. By this means, flexibility of implementation can be combined with adherence to the general strategy of advance which was agreed by the Party and the Parliament when the Second Five-Year Plan was adopted.

Preparation of the Annual Plan is a long process, and there are two aspects to it. The first is the assessment of the general economic situation and the resources which can be made available for development in the forthcoming twelve months. This involves a knowledge and understanding of the financial situation, the bottlenecks of development, and also judgment about future trends of the world economy; it thus calls for detailed information and an ability to assess the implications of many detailed movements related to our economic affairs. This kind of work is thus a matter of recognizing all relevant facts and understanding their meaning for us. To do it we need the services of trained economists and financial experts, as well as a commitment to socialist growth.

The second aspect to the preparation of the Annual Plan is the decision about how we can best allocate whatever resources are available. This, too, requires some willingness to listen to economic advice, because the way resources are allocated can affect the future growth of the economy. But this aspect also requires political decisions; it is a continuation of the process of choice between alternatives, all of which may be good in themselves, but not all of which can be carried out at the same time.

In the past it has been our habit to publish only a Draft Plan which has already been discussed within Government at both official and political levels. This Plan has then been submitted, for approval, to Parliament and to the N.E.C. or National Conference of the Party. In accordance with the Dar es Salaam Declaration that people must be involved in Government to a greater extent, a different approach is being adopted in the preparation of the Annual Development Plan for 1971/72. Two papers relevant to the Plan have been produced; the first is a fairly detailed paper, and is basically the one which was prepared for the Economic Committee of the Cabinet by the Ministry of Economic Affairs and Development Planning. The second is a simplified version of this Paper, which has been prepared to enable a wider group of the people to discuss our problems and the suggested manner in which they can be tackled. It is hoped that, by the use of these Papers—and in particular the second one—meaningful discussion in the Party, and among the people at large, will be possible before the Draft Plan is finalised.

In order that our work should not be delayed, and that the Draft Plan should be ready for consideration by the people, the Party and Parliament in June this year, it is necessary that views and suggestions arising out of these Papers should be sent to the Ministry of Economic Affairs and Development Planning by the middle of April, 1971. These ideas will then be taken into consideration when the final Draft is being prepared. It is the hope of Government that full advantage will be taken of this opportunity for discussion, and further, that this discussion will be about the issues, not about personalities. We must accept that disagreement on how socialist advance can best be achieved does not have to involve or imply disagreement about the socialist goal. This opportunity for public discussion will serve the cause of socialism and democracy only when all participants feel free to discuss the issues without fear that their loyalty and integrity will be called into question if they disagree either with particular proposals or with other people's comments on them.

## GUIDELINES TO ANNUAL PLAN 1971/72—THE MAIN POINTS

The Government is at present working on the draft Annual Development Plan, which will be presented to the Party and the Parliament for decision in May this year. After these discussions, and after any amendments have been incorporated, the Annual Development Plan for 1971/72 will then come into operation on July 1st, 1971.

The preparation of the Annual Plan is one of the more important political events in the country. The Annual Plan, together with the Budget, will determine what will be done for development in the coming year. What policies will the Government adopt? How will it spend the money raised through taxation and borrowing? How will the manpower be used? The answers to all these and many other questions are given in the Annual Plan.

To assist in the preparation of the Annual Plan, and after discussions in the Economic Committee of the Cabinet, the Ministry of Economic Affairs and Development Planning has issued a set of guidelines to Ministries, parastatals, Regions, etc.

In the light of these guidelines, all these institutions will hand in their proposals for development projects in April, and in May-June the Party and Government will decide on the projects and the policies of the country.

As it is important that these matters are discussed by as many people as possible while the plans are still being prepared, it has been decided that the main points of the guidelines for the annual plan should be made available to the public. The rest of this document is a summary of the document discussed by the Economic Committee of the Cabinet. The full document will be made available on request to Tanzanian institutions or people working for Tanzania.

**What is the State of the Economy?**

The Annual Plan is being prepared under circumstances which are different from previous years. It is true that the growth in production in 1970 has been satisfactory. Total output has gone up by 6 per cent, and this means that output per inhabitant has grown by around 3 per cent.

But this growth has created a number of problems. Investments in projects (roads, factories, schools, etc.) have grown faster than anything else. This, of course, is good for the future growth of the economy. But it has meant that in 1970 real private consumption has fallen slightly taken as a whole. So the growth in investment has been at the expense of consumption.

Many investment projects have required large imports of machinery and equipment, therefore the imports into Tanzania of goods from abroad have also gone up very rapidly in 1970.

Exports have grown too, particularly on the agricultural side, but the increase has not been enough to pay for the increased imports. And the foreign loans to pay for imports for development projects have gone down.

If a country spends more abroad than it earns or borrows, it will face a fall in its reserves of foreign exchange. And this is what has happened in Tanzania in 1970. The reserves are now so low that they reduce the nation's ability to manage the economy freely and easily.

The Government has therefore drawn the conclusion that investment will have to slow down in the coming year in order to ensure that the foreign exchange reserves will stop falling and instead will begin to increase.

But where has the money for these large investments come from? How has it been possible for Government to increase its development expenditures from Shs. 632 million in 1969/70 to an expected Shs. 800 million 1970/71? How have the expenditures of Government been financed?

Government gets money from the public in various ways. First of all, it receives recurrent taxes on goods and income, and if it receives more of these current revenues than it spends on current expenditures like salaries, materials, etc., it can use this surplus to pay for development projects. The Government also borrows from the public when institutions like the National Provident Fund, the National Insurance Corporation and the National Bank of Commerce buy Government bonds.

And then the Government receives loans from abroad to finance various projects.

These three sources (surplus on the recurrent budget, internal borrowing and external loans) have not over the last year been sufficient to pay the

development expenditures. Therefore, the Government has also borrowed money from the Bank of Tanzania, and this borrowing has grown very much during 1970.

The Bank of Tanzania was created to replace the East African Currency Board exactly in order to assist the Government in carrying out its development effort. But it is obvious that it is not possible to pay for any quantity of development projects just by collecting money from the Bank. For if this is done too much, prices will go up and imports will increase. Money represents a claim on goods; if we increase the money we use very much faster than we increase the amount of goods available, we shall get into serious difficulties.

In preparing the plan for 1971/72 Government has accepted that these problems exist and that the development expenditures for 1971/72 cannot be allowed to increase. If this is not accepted, the country may get into serious foreign exchange problems, forcing it to cut down its activities suddenly and without a plan, and perhaps also to look for expensive loans from abroad. At the same time prices would continue to rise with bad effects for the consumers.

**What can be Achieved in 1971/72?**

What can be spent in 1971/72 depends on what Government can expect to earn during the year. Much of the Government revenues depend on the agricultural production, and on production in other sectors, like manufacturing industry. Fortunately it is expected that agricultural growth in 1971 into 1972 will be favourable, and that a number of industrial projects will be completed in the period – which means a renewed increase in industrial production.

In the light of this background, and after serious study of all the figures, the Ministry of Economic Affairs and Development Planning, the Ministry of Finance and the Economic Committee of the Cabinet have agreed that Shs. 750 million would be an acceptable level of Government development expenditure in 1971/72.

How much is this? In the present financial year Government development expenditure is expected to be higher than that, namely Shs. 800 million. So the Development Budget in the coming year will be smaller. In other words, a slow-down is suggested.

To understand this it is important to note that, in the first two years of the Five-Year Plan, the country has increased its investments much faster than was planned in 1969. There has been too little discipline with respect to the Second Five-Year Plan. The consequences of this we have just explained.

A closer look at the problem reveals that the main cause for this over-investment is the much too high spending of the parastatal organizations. Over the past years the Government Ministries' own development expendi-

tures have been rising fairly predictably. The spending of the parastatals, because of decisions on projects several years ago, has, however, grown very rapidly. How is it possible to avoid this lack of financial discipline in the future?

**Better Financial Planning is Needed.**

Tanzania has been very successful in mobilizing resources for its Development Budget. Total Government spending, including recurrent expenditure, has grown very much in the last few years, and much of the finance has come from the country itself.

But the physical ability to spend all this money on development purposes has grown much faster than the growth in the money we could make available: in fact, in 1970 it has overtaken the provision of funds.

It is therefore necessary to have a much more thorough look at our spending, so as to ensure stricter economy with the people's money and to ensure, also, that the decisions about spending laid down in the Plans are not violated. So stricter economy must be combined with greater financial discipline.

The guidelines for the Annual Plan, therefore, suggest that a comprehensive financial plan should be prepared. This plan must cover not only the Government's financial resources, but also the contribution to development which can be made by the banking system, and by the surplus earned in the parastatals, etc.

The country must make decisions about how much it can spend in any one year, and where it can get the money. This is what must be expressed in a financial plan. So it is suggested that we should this year take the first steps to exert financial control by guiding the financial institutions on the distribution of their lending, and by exerting better control over the parastatals, so that both are fully integrated in the planning system.

Tanzania is building a socialist economy relying on a number of public institutions. These institutions must be socially controlled; their activities must be planned.

Again, Government itself must strengthen its project planning. We must avoid too many project being started at the same time, as this strains the resources and raises the construction costs. And it happens too often that the final costs of projects are far beyond the original estimates. This is not proper planning.

The guidelines on the Annual Plan discuss one other especially important problem for the financial planning, namely the question of the recurrent expenditures. The Ministry of Economic Affairs and Development Planning points to the fact that many of these expenditures are crucial for the development effort. Often they are necessary simply to keep projects running. The Ministry warns against an uncritical cutting of recurrent

expenditures for the purpose of getting more money for the Development Budget. It is obvious that decisions on recurrent expenditures must be better prepared in the future. But clearly, recurrent expenditure is a form of consumption, and what is consumed cannot be spent on further development.

**Better Planning of Foreign Exchange.**

The sharp drop in reserves in 1970 was in the beginning largely unexpected and unexplained. This kind of surprise should be avoided in the future. It is therefore suggested that a special foreign exchange plan must be prepared each year to ensure the best spending of the foreign exchange. This will require a larger measure of discipline on the side of the big importers.

**Regional and Rural Development.**

The guidelines on the Annual Plan suggest that more emphasis should be laid on rural development, and that more should be done to reduce the inequalities among the Regions. Up to now, public expenditures have tended to increase some of the differences among the Regions, and it appears that less emphasis has been given to rural development in Budget allocations than was originally intended in the Five-Year Plan. In fact, too little money has been allocated to rural development. This is always a tendency, because it is more difficult to implement rural projects than large projects in road construction or industry. The implementation of plans for rural health centres, feeder roads, many agricultural projects and especially marketing organization has faced formidable problems.

The Government has, however, decided to increase the Regional Development Fund in the next financial year. The question which remains is how the increase can be best distributed—on a basis of equality between Regions, or in relation to population, or area, or backwardness, or potential?

Then there is the ujamaa programme, which has expanded very fast. There are now about 1,600 villages, but the degree of socialist living and working in these villages is still very uneven. Some have made great strides towards working together for the good of all, some have yet barely begun.

Funds for the ujamaa programme come from many different sources, so the size of the national financial effort devoted to ujamaa villages is not known. On the background of the rapid expansion in the number of villages, it is necessary to strengthen the planning of the ujamaa programme in order to determine its requirements in terms of finance and manpower. We cannot afford to finance unproductive ujamaa villages; that would be contrary to the policy of self-reliance.

But although we need to have a national plan for ujamaa villages, so that we make deliberate decisions about the allocation of our resources, it is

also suggested that there should be further consideration of means by which decentralization could give greater regional responsibility for ujamaa village planning.

For social services, the Annual Plan must follow the national policy of working towards equal minimum services in all areas of the country.

For primary education, new classrooms must be concentrated on the areas where there is least opportunity for children to to go school. It is necessary that the nation is given information which can show whether this is done or not. For health facilities, too, the aim for 1971/72 and 1972/73 must be to tackle the worst-served areas first.

As regards domestic water supplies, we are still very far from any acceptable standards. Master plans for water supplies over a 20-year period will be drawn up, but in 1971/72 and 1972/73 the spending of funds on water should take into account the different level of needs in various Regions.

Government Ministries and parastatals are reminded of the decision to concentrate industrial and urban development on nine towns: Arusha, Moshi, Dodoma, Mbeya, Morogoro, Mtwara, Mwanza, Tabora and Tanga. Government has recently set up an Industrial Investment and Licensing Council to control (among other things) the location of proposed new industries, and Ministries and parastatals are advised to inform the Council about possible industrial projects as early as possible.

**What Needs to be Done in the Various Sectors?**

The Ministry of Economic Affairs and Development Planning has gone through the various parts of the nation's economy and pointed to some problems needing attention in 1971/72.

In agriculture we produce more rice than we need, we had a good maize crop, and increased wheat production. In cotton the efforts to increase the use of fertilizers and insecticide have not succeeded; this may mean that the target of 700,000 bales of cotton in the Five-Year Plan will not be reached, unless effective corrective action can be devised and implemented.

In 1970 there was a lag in the domestic and export trade in meat. In 1971/72 emphasis should be on the reorganization of marketing, and consideration should be given to the price structure for the purpose of increasing the supply of meat. All meat processing projects in the Five-Year Plan must be reviewed to find better solutions to the problems which are revealing themselves.

In the transport sector, the Tanzam Road is slightly behind schedule, but it is expected to be completed in 1971/72 so that more funds can then be spent on feeder roads. The Tanzam Railway is under full construction; 500 km. are expected to be completed in 1971 and the whole railway will

be ready in 1974 to be fully operational in 1975. In road transport, it is necessary to find a solution to the many problems of the National Transport Corporation, and it is necessary that urgent attention should be given to the problems of the Dar es Salaam Harbour.

In trade, the State Trading Corporation has greatly expanded its activities, but shortage of funds for the large stocks and stores, together with lack of manpower, threaten to delay the 1972 target for socialization. The Ministry of Economic Affairs and Development Planning emphasizes that before the Annual Plan for 1971/72 is finalized, it must be decided whether S.T.C. should receive capital from Government until full socialization is achieved. It is also necessary to have a better planning of imports.

On the export side, more efforts must be made to increase exports to Zambia, Kenya and other neighbouring countries, and to develop trading links with socialist countries.

In industry progress has been fast, but many projects have been more expensive than was planned, and this causes problems; efforts must be made to ensure better cost estimates before decisions are made. It is necessary, also, to ensure better utilization of available production capacity and to control the quality of our new manufactures.

Work is beginning this year on the long-term industrial strategy. One of the first steps to be taken is the initial formulation of a socialist framework for this strategy, showing the priorities to be observed and the kind of industrial society we seek in the future.

In minerals the main issue remains the absence of a project to replace diamonds.

Implementation of the health plan continues to lag behind schedule. Too few rural health centres are built at too high a cost. A planning unit in the Ministry of Health must be established.

In housing, total investment has risen, but the provision of low-cost housing remains much too small. This must change in 1971/72.

In education, the secondary school programme is continuing to expand, but there are delays in getting funds for the University Engineering Faculty and for expanding the Faculty of Medicine. In Ujamaa Villages the need for craftsmen is proving far greater than was originally thought, and steps are needed to overcome this problem. A further manpower bottleneck has arisen in S.T.C.

In overseas recruitment there was by the end of 1970 a backlog of about 515 approved appointment requests, and only 155 people had actually been recruited.

The Ministry of Economic Affairs and Development Planning recommends that the lion's share of new graduates should go to the parastatals until their staff is as localized as the civil service.

**How shall Government spend its Funds?**

At this stage of drawing up the Annual Plan, it might be useful to draw some conclusions from all this. First of all, the main change in emphasis should be towards the rural sector. It is suggested that the share of the Budget going to benefit rural areas, which the Ministry of Economic Affairs and Development Planning estimates to have been 48 per cent in 1970/71, should rise to 55 per cent in 1971/72 and 60 per cent in 1972/73.

Less emphasis should be given to industrial projects which use much capital and large imports. Agricultural projects with high costs compared with the output achieved, or with the benefits to surrounding areas, should also get lower priority. A review of the state farm programme will be undertaken shortly to ensure this.

Lastly, everything must be done to achieve the same results at lower costs. Housing and construction costs could be significantly reduced. S.T.C. could often more cheaply acquire existing storage space rather than construct new godowns.

A number of broad guidelines are suggested to assist the Ministries in preparing projects within the restraints of our present economic situation. In addition to what has already been said about the location in specific regions, priority should be given to projects which:

(i) are under way, or so committed that the cost of cancellation or delay is excessive;

(ii) have high economic or social returns and preferably early returns, and those that realize benefits through links with other parts of the economy, or utilize unused capacity or resources;

(iii) are suitable for external finance;

(iv) are rural based or directed, preferably directly productive;

(v) make minimum demands on scarce resources, i.e., use few imports; use little capital in relation to output and labour; use the least skilled manpower. Preference should go to projects producing for export;

(vi) benefit low-income groups directly or indirectly, and which have high employment content.

March, 1971